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## OPEN MEETING ITEM

MEMORANDUM TO THE COMMISSION

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AZ CORP COMMISSION

TO: THE COMMISSION

MAY 03 1999

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FROM: Utilities Division

DOCKETED BY

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DATE: April 30, 1999

RE: IN THE MATTER OF THE APPLICATION OF BROKEN BOW GAS COMPANY TO  
PURCHASED GAS ADJUSTOR BANK BALANCE (DOCKET NO. G-00000C-98-0568)

On April 14, 1999, Energy West Arizona, also known as Broken Bow Gas (Broken Bow), filed for Commission approval of the amortization of its purchased gas adjustor (PGA) bank balance as of February 28, 1999. This filing by Broken Bow is in response to the Commission Decision No. 61225 (October 30, 1998), which ordered most Arizona local distribution companies (LDCs) to implement a new 12-month rolling average PGA mechanism on June 1, 1999. The general framework of the new PGA mechanism came out of a series of meetings of the Purchased Gas Adjustor Design working group in the summer of 1998. The new 12-month rolling average PGA mechanism was implemented to address issues including natural gas price volatility, gas cost recovery flexibility, and uniformity between PGA mechanisms.

After the Commission issued Decision No. 61225, Staff, the LDCs, and other interested parties met several times to discuss various implementation issues. Decision No. 61225 contemplated the freezing of the bank balance accrued under the existing PGA mechanism, and the amortization of the under- or over-collection reflected in the existing bank balance. This would enable the new PGA mechanism to begin with a bank balance of zero. Zeroing out the bank balance is necessary because interest will be applied to the new bank balance, but not the frozen bank balance.

As of February 28, 1999, Broken Bow's bank balance is overcollected by \$98,167. In its filing, Broken Bow proposes to refund this bank balance over a 12-month period, resulting in a refund rate of \$0.034 per therm, based upon annual sales of 2,872,241 therms. This refund rate would be applied to customer bills until the first month in which the frozen bank balance is fully refunded, at which time the refund rate would be discontinued. Any money recovered beyond that required to refund the frozen bank balance would be accounted for in the new bank balance.

Given the changes being made in the PGA mechanism, a phase-in could be needed to transition from Broken Bow's currently effective PGA rate to the new rolling average PGA rate. To determine whether a phase-in is needed, it is necessary to compare the total cost of gas currently reflected in Broken Bow's rates with the total cost of gas to be reflected on customer bills beginning on June 1, 1999. Components of the total cost of gas include the base cost of gas, the PGA rate, and if applicable, a refund rate for the bank balance.

THE COMMISSION

April 30, 1999

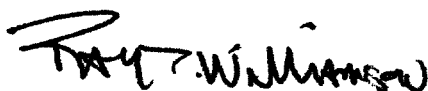
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14  
A phase-in would be necessary if there was a sizable difference between the current total cost of gas and the June 1<sup>st</sup> total cost of gas. The exact total cost of gas for June 1<sup>st</sup> will not be known until late May, when Broken Bow finalizes the most recent gas cost information. However, as part of the April 12<sup>th</sup> filing, Broken Bow provided the actual 12-month cost of gas through the end of February 1999. For the purpose of determining whether a phase-in is necessary, the February 1999, 12-month cost of gas is expected to be sufficiently close to the June 1<sup>st</sup> 12-month cost of gas. Broken Bow's 12-month average cost of gas at the end of February 1999 is \$0.5812 per therm. The table below shows the current total cost of gas and the estimated total cost of gas for June 1<sup>st</sup>.

	Current Cost of Gas	Estimated Cost of Gas For June 1 <sup>st</sup>
Base Cost of Gas	\$0.6248 per therm	\$0.6248 per therm
Bank Balance Amortization	0	-\$0.034 per therm
PGA Rate	\$0.00 per therm	-\$0.0436 per therm
Total Cost of Gas	\$0.6248 per therm	\$0.54720 per therm

The estimated change in the total cost of gas is a negative \$0.07760 per therm. Given this the fact that it is a reduction in the customer's billed rate, a phase-in is not necessary. After the freezing of the bank balance at the end of February 1999 and the implementation of the new PGA mechanism in June 1999, the LDCs will experience over- and/or under-recoveries of gas costs. To account for these over- and under-collections, monthly over- and under-collections incurred by Broken Bow after the bank balance is frozen at the end of February 1999 would be included in the new bank balance.

Staff believes that the proposed refund rate of a negative \$0.034 per therm is reasonable and should be adopted. Staff recommends approval of this filing.



Ray T. Williamson  
Acting Director  
Utilities Division

RTW:BGG:sjsJMA

ORIGINATOR: Robert Gray

PHOO-4000-0417

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN  
Commissioner - Chairman  
3 TONY WEST  
Commissioner  
4 CARL J. KUNASEK  
Commissioner  
5

6 IN THE MATTER OF THE APPLICATION OF )  
BROKEN BOW GAS COMPANY TO )  
7 AMORTIZE THE PURCHASED GAS )  
ADJUSTOR BANK BALANCE )  
8 )  
9 )

DOCKET NO. G-00000C-98-0568

DECISION NO. \_\_\_\_\_

ORDER

10 Open Meeting  
May 11 and 12, 1999  
11 Phoenix, Arizona

12 BY THE COMMISSION:

13 FINDINGS OF FACT

14 1. Broken Bow Gas Company (Broken Bow) is engaged in providing natural gas within  
15 portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

16 2. On April 14, 1999, Energy West Arizona, also known as Broken Bow Gas (Broken  
17 Bow), filed for Commission approval of the amortization of its purchased gas adjuster (PGA) bank  
18 balance as of February 28, 1999. This filing by Broken Bow is in response to the Commission  
19 Decision No. 61225 (October 30, 1998), which ordered most Arizona local distribution companies  
20 (LDCs) to implement a new 12-month rolling average PGA mechanism on June 1, 1999.

21 3. The general framework of the new PGA mechanism came out of a series of meetings  
22 of the Purchased Gas Adjustor Design working group in the summer of 1998.

23 4. The new 12-month rolling average PGA mechanism was implemented to address issues  
24 including natural gas price volatility, gas cost recovery flexibility, and uniformity between PGA  
25 mechanisms.

26 5. After the Commission issued Decision No. 61225, Staff, the LDCs, and other interested  
27 parties met several times to discuss various implementation issues.

28 ...

1       6.    Decision No. 61225 contemplated the freezing of the bank balance accrued under the  
2 existing PGA mechanism, and the amortization of the under or over-collection reflected in the existing  
3 bank balance. This would enable the new PGA mechanism to begin with a bank balance of zero.  
4 Zeroing out the bank balance is necessary because interest will be applied to the new bank balance,  
5 but not the frozen bank balance.

6       7.    As of February 28, 1999, Broken Bow's bank balance is overcollected by \$98,167.

7       8.    In its filing, Broken Bow proposes to refund this bank balance over a 12-month period,  
8 resulting in a refund rate of \$0.034 per therm, based upon annual sales of 2,872,241 therms. This  
9 refund rate would be applied to customer bills until the first month in which the frozen bank balance  
10 is fully refunded, at which time the refund rate would be discontinued.

11       9.    Any money recovered beyond that required to refund the frozen bank balance would be  
12 accounted for in the new bank balance.

13       10.   Given the changes being made in the PGA mechanism, a phase-in could be needed to  
14 transition from Broken Bow's currently effective PGA rate to the new rolling average PGA rate. To  
15 determine whether a phase-in is needed, it is necessary to compare the total cost of gas currently  
16 reflected in Broken Bow's rates with the total cost of gas to be reflected on customer bills beginning  
17 on June 1, 1999. Components of the total cost of gas include the base cost of gas, the PGA rate, and  
18 if applicable, a refund rate for the bank balance.

19       11.   A phase-in would be necessary if there was a sizable difference between the current total  
20 cost of gas and the June 1<sup>st</sup> total cost of gas.

21       12.   The exact total cost of gas for June 1<sup>st</sup> will not be known until late May, when Broken  
22 Bow finalizes the most recent gas cost information. However, as part of the April 12<sup>th</sup> filing, Broken  
23 Bow provided the actual 12-month cost of gas through the end of February 1999.

24       13.   For the purpose of determining whether a phase-in is necessary, the February 1999 12-  
25 month cost of gas is expected to be sufficiently close to the June 1<sup>st</sup> 12-month cost of gas. Broken  
26 Bow's 12-month average cost of gas at the end of February 1999 is \$0.5812 per therm.

27 ...

28 ...

14. The table below shows the current total cost of gas and the estimated total cost of gas for June 1<sup>st</sup>.

	Current Cost of Gas	Estimated Cost of Gas For June 1 <sup>st</sup>
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Bank Balance Amortization	0	-\$0.034 per therm
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Total Cost of Gas	\$0.6248 per therm	\$0.54720 per therm

15. The estimated change in the total cost of gas is a negative \$0.07760 per therm. Given this the fact that it is a reduction in the customer's billed rate, a phase-in is not necessary.

16. After the freezing of the bank balance at the end of February 1999 and the implementation of the new PGA mechanism in June 1999, the LDCs will experience over- and/or under-recoveries of gas costs. To account for these over and under-collections, monthly over- and under-collections incurred by Broken Bow after the bank balance is frozen at the end of February 1999 would be included in the new bank balance.

17. Staff believes that the proposed refund rate of a negative \$0.034 per therm is reasonable and should be adopted.

18. Staff has recommended approval of this filing.

#### CONCLUSIONS OF LAW

1. Broken Bow is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Broken Bow and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated April 30, 1999, concludes that it is in the public interest to approve the filing.

ORDER

THEREFORE, IT IS ORDERED that the filing be and hereby is approved.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

\_\_\_\_\_  
COMMISSIONER - CHAIRMAN

\_\_\_\_\_  
COMMISSIONER

\_\_\_\_\_  
COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. MCNEIL,  
Executive Secretary of the Arizona Corporation  
Commission, have hereunto, set my hand and caused the  
official seal of this Commission to be affixed at the  
Capitol, in the City of Phoenix, this \_\_\_\_\_ day of  
\_\_\_\_\_, 1999.

\_\_\_\_\_  
BRIAN C. MCNEIL  
Executive Secretary

DISSENT: \_\_\_\_\_

RTW:BGG:sjs/JMA